

SANTA CRUZ-PUERTO SUÁREZ CORRIDOR PROJECT PHASE ONE

(BO-0036)

EXECUTIVE SUMMARY

Borrower and guarantor:	República de Bolivia	
Executing agency:	Servicio Nacional de Caminos (SNC)	
Amount and source:	IBD (FSO):	US\$ 75.0 million
	Local counterpart:	US\$ 15.0 million
	Total Phase 1:	US\$ 90.0 million
	IBD (FSO):	US\$ 70.0 million
	Local counterpart	US\$ 17.5 million
	Total Phase 2:	US\$ 87.5 million
	Total Project:	US\$177.5 million
Financial terms and conditions:	Amortization period:	40 years
	Period	
	Physical initiation of works:	2 years
	Disbursement period:	5 years
		not less than 3 years
	Grace period:	10 years
	Interest rate:	
	during the grace period	1%
	during following 30 years	2%
	Inspection and supervision:	1%
Objectives:	Credit fee:	0.5%
	Currency:	Currencies of the Fund for Special Operations (FSO)
	The goal of this Program is to improve Bolivia's integration with the region and international markets, while promoting economic efficiency in the various regions and production sectors by reducing transport costs and travel time, with improved highway conditions and traffic safety. The specific objectives of the Program are to: (i) lower transportation costs; (ii) reduce travel times; (iii) guarantee that the	

highway remains passable from the beginning of construction; and (iv) improve transportation safety for drivers and passengers, and their cargoes (paragraph 2.2).

Description:

The Program consists of the resurfacing and construction of various sections of highway in the Santa Cruz-Puerto Suárez corridor. The heavy construction work will include refurbishing the roadbed and paving of 571 km of highway in two phases, guaranteeing continuous serviceability throughout the corridor. Environmental strengthening and mitigating measures will be carried out at the same time under a separate program financed in its entirety by the Bank: *Environmental and Social Protection Project for the Santa Cruz–Puerto Suárez Corridor* (BO-0033). The second phase of the Program will be contingent upon fulfilling the conditions established in paragraph 2.15 through paragraph 2.17.

The Bank's country and sector strategy:

The Bank's strategy has as its principal elements: (i) economic growth and the creation of opportunity; (ii) development of human capital and access to basic social services; and (iii) good governance and consolidation of reforms. The project will help stimulate economic growth through greater investment in productive infrastructure to link Bolivia and increase competitiveness by reducing transportation costs. The provision of this infrastructure will make it possible for producers to participate more actively in both internal and international markets (paragraphs 2.6 and 2.18 of the Country Paper, May 1999).

The Project is also in line with the strategic component of the Bolivia Poverty Reduction Strategy (EBRP) to expand employment and income opportunities by making highway expansion feasible so as to link Bolivia with neighboring countries, and helps limit the impact of these investments on public finances by providing concessional resources.

Environmental and social review:

The Vice-Ministry of Environment, Natural Resources and Forestry Development (VMARNDF) has granted an environmental permit—Environmental Impact Statement (EIS)—authorizing the National Highway Service (SNC) to carry out construction works throughout the corridor. Given the magnitude and complexity of its direct and indirect effects, it was decided during project preparation that it would be best to deal with the social and environmental impact of the works separately. Accordingly, Project BO-0033 was devised in order to mitigate the Program's impact and ensure consistent application of rigorous criteria for environmental protection and mitigation of adverse effects throughout the corridor. Various, increasingly detailed environmental studies were carried out in the course of preparing the highway construction Program and the accompanying Project BO-0033: (i) an Environmental Impact Assessment Study (EIAS),

prepared in conjunction with the highway engineering studies; (ii) the Strategic Environmental Assessment (SEA), which reviewed and built upon the findings of the earlier EIAS; (iii) a special study on the system for regulating land ownership in the area; (iv) the Work Plan detailing activities under BO-0033; (v) Report from the Senior Advisory Panel; and (vi) a new EIAS based on the final plans for the highway and submitted by a private consortium. The conservation strategy adopted will work in several directions at once: (i) clarifying property rights and returning to the State large tracts of public land suitable for forest management; (ii) regularizing land settlement claims in the area; (iii) strengthening the management of protected areas, especially protection measures themselves; (iv) reinforcing surveillance in forested areas and controlling unlawful clearance of land; (v) promoting practices to encourage sustainable use of natural resources; and (vi) compensating the losses of persons directly affected by the corridor by improving their quality of life. The consolidated version of the SEAs and revised EIASs have been available since 4 August 2000, on the Bank's Web page at www.iadb.org/regions/re1/eia/bo0036/index.htm. The Report on Project BO-0033 was forwarded to the "*Public Information Center*" (PIC) on 4 March 2002, and approved by the Committee on Environment and Social Impact (CESI) on 19 February 2002 (see paragraph 4.14 through 4.24).

Benefits:

The benefits expected from the Program include: (i) reduction in transportation costs; (ii) improved access to transportation for passengers and for the shipment of agricultural production, livestock and manufactured goods; (iii) greater safety in the transporting of passengers and freight, lessening the risk of accidents, reducing travel time and improving routes; and (iv) lowering highway maintenance costs. The Program will benefit all residents of Bolivia, particularly those living in the Santa Cruz region. In addition, it will benefit the international flow of goods.

Risks:

The Program entails the following risks: (i) a complex financing and execution schedule which requires coordination among various donors with different disbursement periods, procedures and policies; (ii) a sector with a history of excessively long construction periods and cost overruns; (iii) failure to provide local counterpart contribution on time; (iv) the SNC has yet to complete its institutional reforms; (v) heavy demand on the resources of the Government of Bolivia; and (vi) highly complicated environmental picture due to the indirect effects of the Program.

Efforts to mitigate these risks are as follows: (i) financing for the first phase of the corridor is virtually assured; the SNC will apply consistent technical and environmental standards throughout the

corridor, and will have a Technical Support Group (TSG) to assist with details of the various contracting systems and the rendering of accounts vis-à-vis each financing source (paragraph 3.13); (ii) the SNC will apply criteria and procedures agreed to in advance with the Bank in the contracting and supervision of work, in order to minimize this risk; (iii) the SNC will create a local counterpart trust fund (the FAL) and Santa Cruz Departmental Prefecture (PSC) will make automatic contributions to the fund in a pre-established amount, thereby reducing uncertainty; (iv) the SNC is making systematic progress in the application of institutional reform measures; implementation of these measures is a condition of eligibility for a loan from the World Bank for the highway sector, and the WB is monitoring compliance in this area (paragraphs 1.46 and 3.10); (v) the Government of Bolivia has provided for the counterpart resources and virtually assured the financing for the first phase; however, the highway sector's share of public spending during the Program's execution period could result in a reduction of resources available for other sectors, creating tension over the level of indebtedness and public expenditures; and (vi) this operation is closely linked to progress under BO-0033; construction work on the corridor will not begin until that project is well under way (paragraph 4.14 through 4.24).

**Special
contractual
clauses:**

Special conditions precedent to the first disbursement: in addition to the standard conditions precedent to the first disbursement, the Borrower, acting through the Executing Agency, must present to the Bank's satisfaction evidence that:

1. Loan BO-0033 has been declared eligible for disbursements (paragraph 4.25);
2. The new SNC organizational structure and wage scale, which is part of the ARI, is in execution with at least 80% of the staff hired for the Department of Planning and Technological Development, the Socio-environmental Administration, the Maintenance Department, and Construction Department, as well as the necessary staff in other departments to support project execution (paragraph 3.9);
3. the Special Project Unit (SPU) has been established within the SNC's Construction Department, which will be responsible for managing the Program, and the unit has been supplied with the human, technical and logistical resources agreed to beforehand with the Bank (paragraph 3.6);
4. the consultants who will make up the Technical Support Group (TSG) have been hired and trained, and are ready to assist the SNC in managing the Program (paragraphs 3.13 and 3.14);
5. the Operating Regulations for the Local Counterpart Trust Fund (FAL) are in effect, and the conditions established in paragraph 3.38 and 3.41 have been fulfilled;

6. the Operating Regulations of the National Highway Maintenance Fund (CNCV) are in effect, the CNCV has been duly constituted and is receiving contributions from the Special Tax on Hydrocarbons and their Derivatives (IEHD) and road tolls, and the resources of the CNCV have been deposited by the Government of Bolivia as provided in Supreme Decree 26.487 (paragraph 1.16); and
7. a document has been forwarded to the Bank proposing toll policies to be applied in the basic highway system and, especially, in refurbished sections of the corridor; the proposal will include the details specified in paragraph 1.16.

Conditions precedent to awarding a contract for work on the Paraíso-El Tinto section: Prior to awarding a contract for this section, the Borrower acting through the Executing Agency, will submit the following to the satisfaction of the Bank:

1. a report on the execution of Project BO-0033, containing the evidence specified in paragraph 4.26;
2. proof that legal possession of the property where the works are to be constructed has been obtained, along with rights of way and other rights necessary for beginning of construction; and
3. evidence that the PSC is depositing local counterpart resources in the Program's sub-account in the FAL, in accordance with the financing schedules approved by the Bank (paragraph 3.41e).

Other contractual conditions :

1. The bidding conditions for construction companies and for the public call for proposals for supervision of the works, and their respective contracts, must include the obligation to adhere to and enforce the procedures for environmental management and control of the works established in the Operating Plan for Project BO-0033, and in accordance with the SNC Executive Resolution No. 10 of 10 March 2002. These requirements shall apply as well to the bidding conditions for the activities of maintenance and rehabilitation of the various gravel sections (paragraph 3.43). Before beginning highway construction works, the SNC shall present evidence that its Socio-environmental Administration and the Vice-Ministry of Environment, Natural Resources and Forestry Development (VMARNDF) of the Ministry of Sustainable Development and Planning has provided environmental training for the Socio-environmental Inspector, the Socio-environmental Supervisor, and the contractor who will be carrying out the work. This training will include both general

environmental protection information and project-specific instruction on topics indicated in the environmental permit. The pertinent bidding conditions will list these requirements (paragraph 3.49);

2. Work on the Paraíso-El Tinto section will not be put to tender until work has begun on the rehabilitation and maintenance of gravel roadways in the El Tinto-San José de Chiquitos, Roboré-El Carmen and El Carmen-Puerto Suárez sections (paragraph 2.18); and
3. With respect to the consulting services needed to conduct special studies, the Executing Agency must present the following to the Bank within the indicated deadline: (i) within 9 months, the TOR for hiring these consultants; (ii) within **15** months, evidence that the consultants have begun activities; and (iii) within 24 months, delivery of the final reports. All deadlines are reckoned from the date that the Loan Contract becomes effective (paragraph 2.23).

Targets for the second phase:

The primary conditions that will be evaluated, among others, in order to determine whether or not to continue on to the second phase are listed in paragraph 2.24 of the document. These conditions have to do with management of the highway system, progress in execution of the Program, highway maintenance, institutional reform and environmental protection. The degree to which they have been attained will be analyzed during the mid-term evaluation of the Program, which will be carried out within 30 months following the start of construction work on the Paraíso-El Tinto section. The Bank will receive a report by no later than June 2005 listing the evidence and documentation required for assessment of these conditions.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation does not qualify as a poverty-targeted investment (PTI).

Exceptions to Bank policy:

This Program will finance routine maintenance on the El Tinto-San José, Roboré-El Carmen and El Carmen-Puerto Suárez gravel-surfaced sections for a period of no more than 30 months, and up to the amount of US\$1.95 million (2.8% of the financing offered). An exception to policy OP-707 Maintenance and preservation of physical works and equipment is therefore requested.

Procurement:

The Bank's standard procedures will be applied for the execution of works and procurement of goods under the Program. International competitive bidding (ICB) procedures will be used whenever resources from the Bank's Loan are used for the acquisition of goods

valued at the equivalent of US\$350,000 or more, or the contracting of construction works valued at the equivalent of US\$3,000,000 or more. In addition, contracts for rehabilitation and maintenance works on gravel sections, as well as for the construction of minor bridges, may be let using the lump-sum system (paragraph 3.49 through 3.52).

The contracting of consulting services will be carried out according to the Bank's standard procedures for this purpose, and those indicated in Document GN-1679-3. International competitive bidding will be used for procurement of consulting services valued at US\$200,000 or more. For this Program, when selecting consulting firms using *Recruitment based on quality and on cost*, the relative weighting of price as a criterion for evaluation may not exceed 20%, and that of the technical element or quality of the offer may not be less than 80%.